Farmland started delivering milk to seven supermarkets in the city on January 9. Each immediately lowered the price it charged the consumer by 20 cents a gallon. By January 17, prices had dropped between 30 and 71 cents per gallon.

Unfortunately, Judge Wexler did not declare the law itself unconstitutional, although he did say that this "would not be without foundation." The judge suggested this be left "to the discretion of the State Legislature."

So, despite the court's ruling, the New York City dairy market is still not free. New York has seen the price of milk drop, but we will never know how much more it will drop until the milk licensing law is repealed and all who want to compete are allowed to try.

The economic and civil liberty we still have in America exists not because legislators are concerned for the welfare of "We the people." Our liberty, and the chance we have to expand it, exists only because a heroic few refuse to stand aside while special interests impose a new two-caste system—the state privileged vs. the rest of us.

The Myth of the Trade Deficit

Sam Wells

Almost daily we read and hear demands from leaders of industry and demagogic politicians to increase restrictions on foreign imports because of the "unfavorable balance of trade" that America is supposed to have with other countries. Although the Reagan administration has paid lip service to free trade, it has drastically increased political obstructions to foreign imports. In 1981, approximately 25% of all goods imported into the United States were subject to

some kind of U.S. government restrictions. Today, that figure has risen to 40%.

And now the president has sent to Congress legislation to stiffen restrictions on imports and pile another layer of controls on top of the bunch we already have. Since 1982 the administration has, through government-to-government negotiations and arm-twisting, secured 18 agreements that limit steel exports to the United States. Last year, the administration pressured Japan and Taiwan into agreeing to limit their exports of machine tools to the U.S. for the next five years. After failing to secure "voluntary" trade restraints from Switzerland and Germany, the administration set new quotas which rolled back exports from those countries. Also last year, it used threats to obtain agreements with South Korea, Hong Kong, and Japan that limited the growth in the quantity of textiles they could export to the U.S. to only 1% or less per year. And these are only a few examples of increasingly prevalent protectionism.

In ominous tones, we are told that the United States has incurred a "trade deficit" and that this means disaster. In late January, the government—from whom all such numbers flow—revealed that the trade deficit for 1986 had amounted to $169.8 billion, a record level. Gosh! But what does it mean? Was the president right when he referred to us as "trade patsies"? Are Americans being taken advantage of by the opportunity to buy low-priced, foreign-made products? Are the trade policies of the Japanese "cheating" us? The answer is a clear No.

The great Ludwig von Mises, writing in 1946, showed how free trade works to the benefit of all parties:

> Under free trade the Swiss watchmakers would expand their sales on the American market and the sales of their American competitors would shrink. But this is only a part of the consequences of free trade. Selling and producing more, the Swiss would earn and buy more. It does not mat-

> ter whether they themselves buy more of the products of other American industries or whether they increase their domestic purchases and those in other countries, for instance, in France. Whatever happens, the equivalent of the additional dollars they earned must finally go to the United States and increase the sales of some American industries. If the Swiss do not give away their products as a gift, they must spend these dollars in buying.

So, in the long run, trade can never take jobs away, but only add them to the American economy as a whole.

Moreover, artificially trying to prop up inefficient industries through protectionist trade policies hurts us all by driving up prices and holding down quality. These policies also hurt other, efficient U.S. industries by tying up resources and capital in the protected sectors, which would otherwise flow to more efficient uses and satisfy consumer needs less expensively. How many Americans have any notion of the high costs imposed by auto import restraints? Despite its laudable free-market rhetoric, the current administration pushed for "voluntary" restraints on the number of Japanese automobiles sold to Americans. This had the effect of narrowing the alternatives from which American consumers could choose—and hiked the price by nearly $2,000 per car. That's a total cost to American consumers of more than $250,000 for each U.S. auto-industry job supposedly saved. If you multiply that example by the number of other "protected" U.S. industries and jobs, the total burden to U.S. consumers amounts to $30-40 billion. And neo-mercantilist policies invite similar measures in retaliation from foreign governments whose leaders are also deluded by mercantilist myths.

Stepped-up protectionism in the U.S. Congress just in the last two years has already resulted in some very harmful foreign reprisals. While all American (and foreign) consumers are hurt by this war between governments, the American farmer has been especially hard hit. An editorial in *USA Today* noted:

> A typical wheat, soybean, or cotton farmer gets fifty percent of his income from foreign sales. And recent U.S. efforts to protect specialty steel, textiles, and other industries have led to heavy retaliation by other countries against our grain exports. We've lost farm sales worth many times what we saved in the protected industries.

When Americans choose to buy lower-cost imports, they have more money to spend or invest in other ways. This means they have more of their wants and needs satisfied for a given income.

The freedom of Americans to buy goods made in other countries gives them a wider choice, and that's all to the good. Not only has buying Japanese products not hurt Americans, but the money earned by the Japanese from their sales to us of VCRs, cars, stereos, cameras, and computer chips has come back to us in the form of Japanese investments.

If it were not for the inflow of this foreign capital (from Europe as well as Japan and elsewhere), the "crowding out" of domestic borrowers in our credit markets by big government's gargantuan budget deficits would have slammed us into a deep repression long before now. So, it has given us a little more precious time to put our own house in order. Instead of expressing gratitude for this salutary consequence, our demagogic politicians are trying to make the Japanese and other foreigners the scapegoats for ills which the politicos themselves created.

What about "dumping" (selling goods to Americans at prices allegedly "below the cost of production") or the Japanese keeping out U.S. goods? Japan is actually less protectionist than is the United States. And nobody can sell his products at below-cost for long without going out of business—much less making any profit. Besides, costs can only be subjectively determined, and they cannot be aggregated between or among industries, let alone countries. If "dumping" does occur, it is a great boon to Americans who take advan-

tage of such bargains. (Why, by the way, isn't Safeway attacked by Giant for dumping when it sells ketchup at a nominal loss to attract customers?)

But what if the Japanese government subsidizes some of its exporting companies so they can increase their American market share by selling at below-cost prices? Since consumption is the end of production, and since consumers clearly benefit by such a good deal, why should we care? If foreigners are foolish enough to allow their governments to tax them to subsidize their exporting companies, we should take full advantage of their generosity. It won't last forever! (The only thing that apparently lasts forever is the U.S. government's massive subsidization of our exporting companies through the Export-Import Bank and other examples of corporate welfare.)

One of the most important notions underlying the calls for stifling foreign imports is the "balance of trade" concept and the idea that a "trade deficit" (your country imports more goods than it exports) is bad and that a "trade surplus" (your country exports more than it imports) is good. This is pure superstition and goes back to the mercantilist days of the 17th century.

The terms "deficit" and "surplus" are accounting terms that apply to budgets. But they have been misappropriated from the context in which they have meaning and used to describe international trade. A "trade surplus" means a "favorable balance of trade" (exports greater than imports), while a "trade deficit" is supposed to denote an "unfavorable balance of trade" (imports greater than exports). This is what we are told by the modern mercantilists and Keynesians. But this notion is as false as it is widespread in current discussions on international economics. Although this fallacy was refuted by the great French economist Richard Cantillon 275 years ago, many have not learned the lesson.

There is no reason why trade should "balance out" between countries at any specific moment—any more than it

should balance out between individuals or companies doing business with each other. If you walk into a supermarket and buy a loaf of bread by exchanging money for it, you don't expect that particular supermarket to turn around and buy an equal amount of goods from you. It may take the money you gave for the bread and buy goods from somebody else, like a supplier or a truck farmer; but there's no reason that goods should balance out in trade between two parties. The buyer gives up money for goods, and the seller gives up goods for money. Both sides benefit. The same applies to people or firms living in different countries.

When Americans buy imports, they are simply accepting payment for the goods they export (sell) to foreigners. Imports pay for exports and exports pay for imports. There is no reason they should always balance. Taking a statistical snapshot of the flow of goods between countries at any single time and calling that the "balance of trade" is artificial, misleading, and irrelevant. We don't have to be concerned about it since it has no real bearing on the status or health of the economy. Yet, judging from all the media hype, we are supposed to fear a national "trade deficit" (which isn't even a real deficit at all) more than the very real and definitely harmful federal budget deficit!

Americans who wish to preserve and expand their liberty, and maximize their choices in the market, should work to repeal existing restrictions and taxes on imported goods, and vigorously oppose efforts in Congress to impose still more protectionist legislation. Despite what we hear from the politicians, there is no conflict between the principles of freedom and patriotism: free trade is in the best interests of Americans and America. Instead of clamoring for more political intrusions on our freedom to buy and sell, those genuinely concerned about the struggling sectors of U.S. industry should demand abolition of the taxes and controls which the U.S. government has clamped on our domestic industries. Let

American consumers have the freedom to choose to buy Sony and Honda. And liberate American producers from government.

Another Federal Crime Against Consumers

Llewellyn H. Rockwell, Jr.

The Reagan administration has verbally championed free trade while imposing more protectionism than any other administration since World War II. In 1981, about 25% of our imports were restricted in some way by the feds. Today, the figure is over 40%. And now we have an attack on American consumers in the name of retaliation against Japanese computer chips.

Because Japanese companies make these chips—the silicon hearts of computers—more economically than domestic producers, the administration has sought to protect inefficient U.S. firms at the expense of American consumers (and efficient U.S. firms).

The Japanese crime is "dumping": selling products below cost. But there is no way to tell if dumping is taking place. Austrian economics shows us that the notion of cost is necessarily a subjective and changing one. No government bureaucrat can tell what a company's cost is.

Even if dumping takes place, why should the police powers of the state be used to impede it? It can't be bad for consumers, and as Ludwig von Mises taught, it is from the standpoint of consumers that all economics and economic policy must be judged.

Even if true and taking place, why outlaw this consumer-enhancing process only internationally? Why not prevent